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Respectfully Forwarded To
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Shanghai, January 2, 1932.

**LOCAL OPIUM MERCHANTS OFFER COUNTER-PROPOSAL
TO JAPANESE**

We have been reliably informed that after prolonged negotiations between the Japanese military and Chinese opium merchants, the question of opium monopoly in Shanghai is now practically settled. The opium merchants refused to accept any scheme to pay a fixed amount of revenue and to dispose of a minimum quantity of opium. At the same time through the medium of the Special Goods Association, alias the Opium Merchants Union, they advanced a counter-proposal to the Japanese making the amount of opium and the sum of revenue flexible on the basis of the scope of business done under present conditions. The proposal of the opium merchants contains the offer to pay a sum of \$15,000 per month to

the Japanese as license fees. It is expected that about sixty firms and shops will resume trade under Japanese and that they will share the revenue by each contributing a certain amount as license fees with which they secure the necessary permit to conduct their business. In addition to the above, the opium merchants also offer to pay a tax of 30 cents per tael on opium sold, the Japanese not to press for monthly minimum sales. The opium merchants are represented by Mr. Ho Yui-wu (何又吾), Secretary of the Special Goods Association and the Japanese arrangements are in the hands of officials of the so-called "Ta Tao Municipal Government" in Footung, but the real authority is Mr. Nishizubaki (西木), a Japanese official behind the scene.

The opium merchants believe that the Japanese will accept the offer as due to the complicated situation in connection with opium trade, the Japanese will have to depend upon the co-operation of the opium merchants for the time being. The Japanese authorities are now considering the

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proposal as outlined above and a set of proposed regulations drafted and submitted by the opium merchants. If the scheme is accepted in principal, the power will lie with the opium merchants at the Special Goods Association as under the former Chinese regime. These old hands in the trade are the only people that can give Japanese a reasonable amount of revenue and at the same time make some money for themselves.

It is believed that Jehol, Manchurian and Chahar opium will form the main source of supply, transportation being by way of Tientsin. Besides this, Persian opium from Formosa will be put on the market. It may be recalled that shortly before the visit to Formosa in 1929 of the Far East Opium Commission of the League of Nations a big opium scandal involving a huge shipment of Persian opium amounting to over 10,000,000 ounces was discovered. This shipment was seized and kept by the Japanese army owing to internal political trouble and had not been disposed of. The Army leaders decided then to utilize this shipment for aggressive purposes in

China. In the year 1933, during the time of the Fukien rebellion, they offered this opium to a Chinese traitor, Gen. Tu Chi-yun (杜起雲) as subsidy for doing traitorous work in order to pave the way for their aggressive program. Part of the opium was sent to Gen. Tu enabling him to realize some money to finance his traitorous campaign. But the secret dealing between the Japanese and Gen. Tu leaked out and the latter was arrested and executed by Gen. Chiang Kai-shek and the scheme was frustrated. The remaining amount of this shipment of Persian opium, about 6,000,000 ounces, was kept in Formosa. This stock will probably be sent to Shanghai for disposal through the opium hongs there. The supply of opium from Yunnan, Szechuen and Kwichow via Hankow is now entirely cut off and the amount hoarded by the opium merchants is running low. Therefore sources of supply will be as above mentioned.

The question of narcotics has not been touched upon so far. The

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Japanese are not believed to openly include narcotics in the agreement but it is expected they will unofficially push narcotic sales through the same channel as was done in Manchukuo and Tientsin.